

## COMMERCIAL UPDATE - SAKHALIN REGION, October 2004 (Russian Far East)

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This report contains the following items:

- Foreign company branches in Russia can issue letters of invitation for foreigners.
- Transportation:
  - FESCO is ready to begin end-to-end cargo deliveries from the ports of Australia, New Zealand and Philippines.
  - SASCO to start regular container line services Korsakov-Vladivostok.
  - Kholmsk western port reconstruction completed.
  - Sakhalin Energy signs contracts for LNG-transportation vessels.
- Oil and Gas:
  - Sakhalin-1 starts building pipeline to De Kastri.
  - Development budget for Sakhalin-1 approved in Moscow.
  - SEIC holds a press conference in Yuzhno-Sakhalinsk.
  - Royal Dutch/Shell declared merge.
  - Japanese Bank of International Cooperation will proceed with Sakhalin-2 financing.
  - Sakhalin Regional Administration is going to sign cooperation agreements with four large Japanese companies – Tokyo Gas, Tokyo Electric, Mitsui and Mitsubishi.
  - Sakhalin oil and gas conference opens in London.
  - South Korea to receive Sakhalin gas in 2008.
  - ONG-Videsh will additionally invest USD 1.07 billion into Sakhalin-1.
  - India to Invest US\$ 1.5 Billion in Sakhalin-3.
  - Ministry of Natural Resources decides on future fields licenses sales.
  - Exxon talks to China over gas deal.
  - Exxon helps China join Sakhalin Gas Sweepstakes.
  - Gazprom sets up Gazpromneft. Sergei Bogdan'chikov is appointed General Director.
  - Rosneft to transfer most oil exports to Gazprom.
  - Shell-Gazprom Sakhalin-2 talks to be completed by year-end
  - Shell Says Gazprom Enlargement Benefits Russia Energy.
  - Tokyo Electric Power signs a contract with SEIC.
  - SEIC sells oil to Tohoku Electric.
  - Sakhalin ecologists expressed their opinion about Sakhalin Energy activities.
  - BP and Rosneft are working out the plan for Sakhalin-5 appraisal wells drilling.
  - Alfa-Eco sells its share of Petrosakh.

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**Foreign companies' branches in Russia can issue invitation letters for foreigners.**

Foreign companies with branches in Russia can issue invitations for foreign citizens to come to Russia. This statement was made by the Sakhalin Region Arbitration Court, which processed a claim filed by CTSD Limited (the General Contractor for the LNG plant construction). The Court declared the non-regulatory act of the State body (Department of Interior Passport-Visa Service, Yuzhno-Sakhalinsk) #12/3563, issued May 13, 2004, void. By that act the CTSD Branch was deregistered from obtaining Passport-Visa services as unable to issue invitation letters for foreigners to come to Russia. This news was reported to TIA Ostrova Agency by CTSD office. CTSD Limited was represented in the court hearing by the Yuzhno-Sakhalinsk office of PriceWaterhouseCoopers. The Court's decision reads as follows, "The statement in the Department of Interior Passport-Visa Service letter, declaring that the applicant, registered in a different country, cannot be a subject for registration as an inviting party represented by its Branch, contradicts current legislation. Thus, the Manager of the accredited branch, in his authorized capacity, granted by the legal entity of a foreign country, has a right to apply to the Department of Interior as an employer and inviting party for letters of invitation for foreigners in order for them to enter into Russia, subject to applicable regulation." (Source – TIA Ostrova, [www.sakhipa.ru](http://www.sakhipa.ru), November 30, 2004)

*As it was reported by some foreign companies branch offices on Sakhalin, Passport-Visa Service (PVS) is rejecting services for letters of invitation for these companies foreign employees to come for work on Sakhalin. As the PriceWaterhouseCoopers representative on Sakhalin informed (Mr. Andrey Goncharov, tel. 72-74-63), the legal case won by CTSD is unfortunately not enough to break PVS denials for all the rep. offices since there is no decisional law in place and since every single case may differ. RiceWaterhouseCoopers suggests filing an appeal in each case of such services denial.*

## Transportation

*\* FESCO is ready to begin end-to-end cargo deliveries from the ports of Australia, New Zealand and Philippines to Russia and further to Europe.*

FESCO is able to provide end-to-end cargo deliveries on its vessels and containers from the ports of Australia, New Zealand and Philippines to Russia and further to Europe using an intermodal service. This service should be cheaper and faster than any other alternatives available. As reported by FESCO, the regular service to Hong Kong and increase of tonnage at the Chinese direction allowed connecting FAL (FESCO – Australia Line) and FENZEL lines (FESCO – New Zealand Express Line). In October 2004, FESCO started fleet replacement for a larger tonnage in order to increase the total tonnage 1.5 times at Chinese direction. (Source- TIA Ostrova Agency, November 02, 2004)

*\* SASCO to start regular container line services Korsakov-Vladivostok.*

The container line has been operating since September 01, 2004; twelve trips were made so far. As it was reported by SASCO, one vessel “Pioner Sakhalina” is operating at the moment. As the cargo turnover is growing, the additional vessels will be utilized on the line. According to the Company, the rates are lower than the other Far Eastern freight forwarders can offer; reefer containers are also accepted for transportation. SASCO works with two agents – *Vostochnaya Morskaya Agentuskaya Kompaniya* (Eastern Marine Agent Company), Vladivostok, and *Sakhalin Vneshtransservis*, Yuzhno-Sakhalinsk. The shipping agency is *JSC Transeck Group*, Vladivostok. (Source –TIA Ostrova, [www.sakjipa.ru](http://www.sakjipa.ru), November 30, 2004)

*\* Kholmsk western port reconstruction completed (via [www.rfeoilgas.com](http://www.rfeoilgas.com)).*

Kholmsk west seaport is hosting another event, but for the first time it is a happy one. Refurbishment work on a three-storied once deserted building has been completed. Personnel of SP Sakhalin-Shelf-Service and Starstroy now will be able to work in comfortable offices. As usual guests were invited for the building’s opening ceremony and included security agency representatives from customs, militia, and border-security forces. Alexander Gusto, Mayor of Kholmsk, considers that the Western Port (*Zapadnyi Port*) now has become one of the most upgraded ports in the region because of unique technologies used, as a result of the long-term partnership with Sakhalin Energy. SMU-3, LTD did the reconstruction and was highly recommended based on their work on several buildings in Yuzhno-Sakhalinsk, such as the Yubileinaya Hotel, Rosneft-Sakhalinmorneftegas and SakhalinNIPImorneft offices. (Source - Sovetski Sakhalin , November 13, 2004)



*Picture by [www.vics.com](http://www.vics.com)*



*Picture courtesy of Starstroy*

*\* Sakhalin Energy signs contracts for LNG-transportation vessels.*

On November 15<sup>th</sup> in London, SEIC signed the agreement with two Japanese-Russian ship-owner consortia for the long-term freight of three newly built vessels to deliver LNG. One of the contracts, envisaging the freight of two vessels was signed with the consortia of Nippon Yusen Kaisha (NYK) and JSC Sovkomflot. One more freight contract was signed with Mitsui OSK Lines, LTD (MOL), Kawasaki Kisen Kaisha, LTD (K Line) and PRISCO. Two vessels of 147,200 cubic meters of deadweight will be constructed for NYK – Sovkomflot at the shipyard of Mitsui Heavy Industries; the vessels should be ready by the fourth quarter of 2007. The third vessel of the same deadweight, to be ready at the second quarter of 2008 will be completed for MOL – K Line - PRISCO at Mitsui Engineering and Shipbuilding. According to the contracts terms, all vessels should have ice strengthening and are designed to be utilized in low temperatures. The two winning consortia were selected from 12 international ship-owners and shipbuilding companies. (Source – *Sovetski Sakhalin*, November 17<sup>th</sup>, 2004)

## **Oil and Gas**

*\* Sakhalin-1 starts building pipeline to De Katri (by ENL press-release)*

Yuzhno-Sakhalinsk, November 9, 2004. Exxon Neftegas Limited (ENL), the Sakhalin-1 Project Operator, today held a ceremony in honor of the welding of the first joint of the pipeline between Sakhalin Island and the Russian mainland. Critical to the Sakhalin-1 Project, the 225-kilometer pipeline will transport Chayvo crude oil westerly across Sakhalin Island and the Tatar Strait to the DeKatri terminal in the Khabarovsk Krai. The pipeline design capacity is approximately 12 million tons of oil a year (250 thousand barrels per day). Nippon Steel Corporation and its Russian affiliate NS Neftegazstroy Limited, as well as two Russian companies - LUKoil-Neftegazstroy, and SMU-4, are involved in the construction of the pipeline, which is scheduled for completion at the end of 2005. The Russian Vyksa Metallurgical Plant supplies more than 80% of the pipe.

*\* Development budget for Sakhalin-1 approved in Moscow.*

The meeting of the Authorized State Body for Sakhalin-1 took place in Moscow on December 01, 2004. The budget was approved at USD 1.8 billion; the scope of work for 2005 was also approved. The Russian side had questions about some of the corporate expenses, which the Consortium shows as reimbursable by the Russian Federation. ENL is planning to start production and deliveries of oil and gas in 2005 instead of 2006 as it was planned earlier. Hydrocarbons are to be delivered to Khabarovsk Krai by the existing pipeline belonging to Rosneft-Sakhalinmorneftegas until Exxon's own pipeline is in place. Gas transportation to Khabarovsk is planned to start before 2005-2006 heating season, transportation to De-Katri – in December of 2005. On December 23<sup>rd</sup> the Working Group meeting on Sakhalin-2 also took place in Moscow where the substantiation for 2005 budget was discussed. As it was reported earlier, SEIC presented the budget of USD 4 billion for 2005, which, by the Russian party opinion, involves significant project budget increase. (Source – *Sakhalin.ru*, [www.sakhipa.ru](http://www.sakhipa.ru), December 07, 2004)

*\* SEIC holds a press conference in Yuzhno-Sakhalinsk.*

Sakhalin Energy Investment Company LTD briefed on its 2004 activities. It was reported that significant progress was achieved on marine structures. The first and the second offshore platform concrete substructures for Lun'skoye gas field were just completed in Vostochny Port. Parallel to that, the second platform for Pil'tun-Astokskoye oil field is being constructed. To construct the first substructure for the Lun'skoye field the concreters used more than 75,000 cubic feet of concrete and 1,100 metric tons of reinforcement. The substructure is 187 feet tall, and with its highly complex structure is a unique one for the Far East. Besides its support function it will be used to deliver gas and condensate from the upper structure of the platform via pipes into the subsea gas line and further to the shore. In the spring of 2005 a channel will be made in one of the shipyard's walls to allow the platform to float and be towed to Lun'skoye. The upper structure will later be installed and production wells will be drilled.

At Lun'skoye field the sub sea pipeline sections are being welded, onshore production facility is under construction. Piperack is ready at the facility and the condensate reservoir is under construction; gas liquefying converter is installed, two channels for onshore takeout of the pipelines, which will connect all the platforms, were completed.

As it was reported earlier, SEIC made a decision to change the route of the pipelines in Pil'tun Bay, which is a place of an annual grey whales pasture. Two more variants of the route are being discussed.

At the trunk pipeline 1,300 kilometers (807.8 miles) of line pipe is prepared for laying and welding. 200 kilometers (124 miles) was already laid, 400 kilometers (248.5 miles) of the route was prepared for laying the pipeline; welding started at 40-inches pipeline. Still, some work is behind schedule and the company is taking the necessary measures to improve the situation.

Good progress was made at the LNG Plant construction in Prigorodnoye. The LNG reservoir is under construction, 5 thousand workers are busy at this site at the moment; 6 thousand workers are expected to work there at the peak of construction. The company representatives were also asked about the plans to increase development budget for 2005. It was reported that indeed, the revised plans were submitted to the Russian side but it is too early to speak about the volumes of such an increase; as for 2004, the work was carried within the planned budget. (*Source – Sovetski Sakhalin newspaper*)

**Sakhalin Energy - Concrete Work Completed.** *newsletter available at the company site at [http://www.sakhalinenergy.com/news/nws\\_releases\\_20041203.doc](http://www.sakhalinenergy.com/news/nws_releases_20041203.doc)*

*\* Royal Dutch/Shell declared merge.*

Two holdings, owners of the Royal Dutch/Shell group, will soon merge into one conglomerate. The decision was made after some investors criticized double management and lack of transparency, which led to the scandal connected with the oil and gas reserves re-appraisal, reported Pravda.ru. As it was already reported, the scandal took place at the beginning of 2004, when Shell announced the significant oil and gas resources reappraisal. According to refined data, the company's resources made up 15.6 billion barrels. In 2002, Shell announced that they possessed about 19.5 billion barrels of resources. According to this reappraisal, the resources will be enough to continue work for 10 years and not for 13, as it was previously announced.

Shell is the third largest oil group in the world; 60% of it belongs to the Dutch Royal Dutch Petroleum Company and 40% - to the British Shell Transport and Trading Company. After the merger, the "new" Shell will be registered in the United Kingdom, but its central administration will still remain in the Netherlands. (*Source – sakhipa.ru; Neftegazovaya Vertikal' Magazine, November 01, 2004*)

*\*Japanese Bank of International Cooperation will proceed with Sakhalin-2 financing.*

Governor Malakhov met with the management of the bank and with the representatives of Mitsui and Mitsubishi (members of Sakhalin-2). At the meeting, the issues of Sakhalin-2 were discussed. The talks on further financing of the Sakhalin-2 second phase are in its final stage took place; besides, it is reported that the bank is going to provide a substantial part of the necessary amount. Sakhalin regional Administration is supporting the financing agreement. The Governor noted that the Administration is ready for cooperation in other spheres as well, including the infrastructure development. (*Source – TIA Ostrova Agency, November 04, 2004*)

*\* Sakhalin Regional Administration is going to sign cooperation agreements with four large Japanese companies – Tokyo Gas, Tokyo Electric, Mitsui and Mitsubishi.*



*Governor Malakhov. Picture by Kommersant*

The Administration intends to sign such an agreement in the near future. Related to this agreement, under the aegis of the Japanese Bank of International Cooperation, the business plan will be prepared during the next six months. The business plan will concern the following branches of Sakhalin economics - energy, gas & chemicals processing and the infrastructure development (road construction, ports, public utilities and other spheres). According to Ms.

Galina Pavlova, Director of the Oil and Gas Complex Department, the Japanese specialists and the Regional Administration will mutually prepare the business-plan. Tokyo Electric expressed an intension to carry out the preliminary examination of the Yuzhno-Sakhalinsk Power Plant #1 in order to determine the optimal input from their side (to take part in gasification process, to share "know-how", or else). Governor Malakhov met with the President of Tokyo Electric together with the representatives of SakhalinEnergo on November 05 and discussed possibilities of cooperation in local energy system, which contains a significant level of deterioration. On November 6-7, SakhalinEnergo specialists met with Tokyo Electric representatives and visited Power Plant #1. (*Source – Sakhalin.ru, November 11, 2004*)

*\* Sakhalin oil and gas conference opens in London (via [www.rfeoilgas.com](http://www.rfeoilgas.com)).*

The annual International Conference devoted to implementation of Sakhalin oil and gas projects opened in London. The Sakhalin Oblast Administration and the British IBC Global Conference organization organize the conference. According to the conference program, reports will be made by representatives of Russian and UK Governments, Sakhalin Oblast Administration, EBRD, and leading oil and gas businesses on Sakhalin - BP Sakhalin, Exxon Neftegas Limited, and Sakhalin Projects. The forum will review the prospects for implementation of Sakhalin -1 and Sakhalin-2; Sakhalin-5 geologic work; opportunities for energy resources supply to Asia-Pacific Region; issues of adherence to Russian and international field development standards; staff training and economic security. A special seminar was devoted to icebreaker support issues, technology, and work experience in the harsh environment of Far Eastern seas and difficulties of offshore drilling. (*Source - Sovetski Sakhalin , November 17, 2004*)

*\* South Korea to receive Sakhalin gas in 2008 (by Sakhalin Times; [www.sakhalintimes.ru](http://www.sakhalintimes.ru) ).*

South Korea will be able to receive liquefied natural gas (LNG) from Sakhalin in 2008, Konstantin Pulikovskiy, the Russian Presidential Envoy in the Far East declared at a meeting with the Governor of South Korea's Kyongsangbukto province. According to the envoy, the main direction of Russian-Korean collaboration is cooperation in the fuel and energy sector. Russia is ready to implement large gas projects together with South Korea and to supply oil and gas from Siberian and Far Eastern fields to the Republic, Pulikovskiy added. Modernization of the Khabarovsk oil refinery and the beginning of the exploration of oil fields on the Kamchatka shelf and in Sakhalin is of great importance for developing investment cooperation between Russia's Far East and South Korea, the envoy believes. "We are trying to diversify bilateral trade currently. It is important for us to considerably change its structure to increase the share of machinery and high-tech products in the structure of Russian exports. Currently, the share of raw materials in the structure of Russian exports to South Korea is 98 percent; the press-service of the envoy quoted him as saying. (*November 19, 2004*)

*\* ONG-Videsh will additionally invest USD 1.07 billion into Sakhalin-1.*

Oil & Natural Gas Corporation (ONGC, India – holds 20% of Sakhalin-1 project) is going to invest an additional USD 1.07 billion in order to guarantee supplies of hydrocarbons to India. It is planned to increase the volume of investment alongside with a possible increase in estimated reserves. (*Source – Skrin Emitent; sakhipa.ru, November 16, 2004*)

*\* India to Invest US\$ 1.5 Billion in Sakhalin-3 (by Sakhalin Times; [www.sakhalintimes.ru](http://www.sakhalintimes.ru) ).*

India plans to invest US\$1.5 billion in the Sakhalin -3 project according to a report in The Hindu on November 14. This will be part of a US\$ 3 billion investment in Russia's oil and gas fields. An agreement is likely to be signed during Russian President Vladimir Putin's December visit to India, according to the report. ONGC Videsh Ltd has already invested US\$ 1.7 billion in the Sakhalin-1 project. Officials from India's Petroleum Ministry refused to comment on which of the state-run companies would be involved in the projects. Indian Oil Corporation and Gas Authority of India Limited (GAIL) are the likely contenders. GAIL and Gazprom are jointly exploring gas reserves off India's east coast.

India plans to invest another US\$1.5 billion in the joint Russian-Kazakh Kurmangazy oil field in the Caspian Sea, which has a potential of up to one billion tons of oil. Indian Petroleum Minister Mani Shankar Aiyer recently visited Russia to boost energy cooperation between the two countries. "In the first half century of Indian independence,



Russia guaranteed our territorial integrity. And in the second half, it may be able to guarantee our energy security,” Mr. Aiyer told reporters recently. (November 19, 2004)

*\* Ministry of Natural Resources decides on future fields licenses sales.*

The Authorities on the Ministry of Natural Resources decided on a procedure of future licenses distribution. In the next two years investors can rely on participation in 181 tenders. The largest in this list is a field known as Sakhalin-3 project. It was reported that the auction would take place in 3 months after the new version of the *Underground Resources Law* is approved. The latter will be approved in the middle of 2005. Combined resources of Sakhalin-3 make up 620 million metric tons of oil, 767 billion cubic meters of gas and 53 million metric tons of condensate. In 1993 the tender for Sakhalin-3 was awarded to Exxon, Mobil and Texaco, but in January 2004 the Government decided not to issue a license but to announce a new tender. The experts name Rosneft, Chevron Texaco and ExxonMobil as the most realistic candidates for the field license. (Source – *Sovetski Sakhalin newspaper*)

*\* Exxon talks to China over gas deal: Nakagawa (by Sakhalin Times, [www.sakhalintimes.ru](http://www.sakhalintimes.ru)).*

On November 2, Shoichi Nakagawa, Japan's Trade and Industry Minister told Japanese reporters that Exxon Mobil is negotiating with China over the supply of Sakhalin-1 natural gas. Exxon Mobil has also been negotiating with Japan to build a pipeline stretching to Japan and for the sale of the natural gas. Mr. Nakagawa, however claimed that the latest development "doesn't mean Exxon Mobil has picked China" as its client or has cancelled the plan to provide Japan with natural gas. Japanese companies including Itochu Corp. and Marubeni Corp. are participating in the Sakhalin project, which aims to start commercial production of natural gas in 2008. But negotiations between Exxon Mobil and the Japanese side have stalled partly to compensation issues for Japanese fishing operations and reluctance of Japanese utility companies to join the project. Japan views Exxon's move to start talks with China as a strategy aimed at triggering a breakthrough in negotiations with the Japanese side. Exxon Mobil Chairman Lee Raymond met Japanese Prime Minister Junichiro Koizumi and Mr. Nakagawa on November 1. According to Mr. Nakagawa, Mr. Raymond explained that Japan was an important client, but the oil company also was negotiating with another customer. An Exxon Mobil official at the Dallas, Texas-based oil giant earlier said the firm had started talks with a Chinese company, but would not elaborate. A Japanese business daily reported on November 1, that Exxon Mobil was negotiating a deal with a major Chinese oil company under which all Sakhalin-1 natural gas would be shipped to China rather than Japan. The paper said the potential deal between Exxon Mobil and China National Petroleum Corp. would be a radical departure from the multinational project's initial plan to sell all of its natural gas output to Japan by building a direct 1,500-kilometre pipeline. The report added that Exxon Mobil has been talking to the Chinese oil company in a bid to reach an agreement by next spring. The new plan calls for the building of a pipeline linking Sakhalin and northeastern China via Russia's Far Eastern coast, according to the report. The Exxon Mobil-led international consortium last year began drilling for oil in the Sakhalin-1 site. Japanese companies collectively hold a 30 percent stake in the project. Total recoverable reserves are estimated at 2.3 billion barrels of oil and 485 billion cubic meters of natural gas. (November 07, 2004)

*\* Exxon helps China join Sakhalin Gas Sweepstakes (by Sakhalin Times, [www.sakhalintimes.ru](http://www.sakhalintimes.ru)).*

Close on the heels of Gazprom and Exxon Mobil announcing cooperation on the Sakhalin-1 project, Exxon Mobil entered negotiations with China National Petroleum Corp. (CNPC) on supplying Sakhalin-1-produced gas to China. Exxon aims to reach an agreement with CNPC to build a natural gas pipeline between Sakhalin and China that would cost as much as US\$ 9.4-14.1 billion. It is reported that for Gazprom this project might be an alternative to building a pipeline from western Siberia to China. Gazprom does not hold any shares in Sakhalin-1; however, next year it will become the owner of Rosneft's assets through its oil unit, Gazpromneft. Rosneft holds a 20% stake in Sakhalin-1.

Until recently, the participation of Japan's SODECO in the project implied the supply of gas from Sakhalin-1 to Japan either by a pipeline or in liquefied form. However, the project's profitability has raised serious doubts in Japan.

Similar concerns on financial feasibility have been raised in China. The Sakhalin-1 project's current gas reserves make the construction of an expensive pipeline to China unprofitable. However, gas supplies to the country might become possible in the future - through the existing Sakhalin-Khabarovsk pipeline whose current capacity is still much lower than the potential supply volumes of Sakhalin-1. The expansion of this pipeline along the Khabarovsk-Vladivostok-Harbin route in the future will not only enable Exxon Mobil and Gazprom to enter the Far East gas

market, but also to develop other projects on the Sakhalin shelf. The cost of the future gas pipeline is comparable with the cost of a gas pipeline from Kovykta, which means Gazprom will not have to hurry to develop other gas projects in western Siberia until 2010. (November 15, 2004)

*\* Gazprom sets up Gazpromneft. Sergei Bogdan'chikov is appointed General Director. (by Sakhalin Times, [www.sakhalintimes.ru](http://www.sakhalintimes.ru)).*

Gazprom set up a daughter company, Gazpromneft on November 1, according to a Prime-Tass report. Gazprom's Chief Alexei Miller signed a document founding the open joint stock company and appointed Sergei Bogdan'chikov, President of Rosneft, as its Director General. Earlier, Gazprom's Board of Directors approved the formation of Gazpromneft, a 100 percent daughter company of Gazprom with registration in St. Petersburg. The new company is set up in the framework of Gazprom's second stage reform envisioning consolidation in independent legal entities of businesses of Gazprom.

Main areas of operation of Gazpromneft will be extraction of oil and gas condensate, their transportation and storage.

(November 07, 2004)

*\* Rosneft to transfer most oil exports to Gazprom (by Sakhalin Times, [www.sakhalintimes.ru](http://www.sakhalintimes.ru)).*

On October 28, Gazprom Chairman Alexei Miller and Sakhalin Governor Ivan Malakhov discussed the preparation of the first draft of the long-term cooperation agreement between the gas major and Russia's only insular region in the Sea of Okhotsk, Gazprom said in a press release. "Gazprom's return to Sakhalin will be crucial for the region and we'll give it the required support," the press service cited the Governor as saying. The sides discussed an outlook for development of the gas sector in East Siberia and the Russian Far East, as well as Gazprom's participation in the development of oil and gas fields on the Sakhalin shelf. As said at the meeting, natural gas will arrive from Sakhalin through the Sakhalin - Komsomolsk-on-Amur - Khabarovsk - Vladivostok - Nakhodka pipeline. In the opinion of Mr. Miller and Mr. Malakhov, the construction of the gas pipeline will be the first stage in the development of the integrated system of gas production and transportation in East Siberia and the Far East and provide a mighty impetus for economic upswing in the entire eastern part of Russia. As reported before, Russia's energy strategy until 2020 targets formation and development of a new large gas center in East Siberia and the Far East. Under the cabinet resolution of July 16, 2002, Gazprom coordinates the program of development of the two regions' resources of gas, unfolds the gas-supply system for Russia's eastern regions and ensures a united gas-export channel to countries in the Asia-Pacific region. (November 07, 2004)

*\* Shell-Gazprom Sakhalin-2 talks to be completed by year-end: John Barry (by Sakhalin Times, [www.sakhalintimes.ru](http://www.sakhalintimes.ru))*

John Barry, head of the Shell Company mission in Russia, announced last week that Shell does not rule out the possibility that a Russian investor will join the Sakhalin-2 project before the end of the current year. The idea of a Russian investor's joining this consortium renders the project more attractive, he said. Mr. Barry emphasized that since gas constitutes the basis of the Sakhalin-2 project, Gazprom's joining the consortium would be not without interest. He pointed out that negotiations on the matter are going on, that the Shell is optimistic enough and hopes to settle the matter before the year is out. Touching upon the Korean Kogas Company's accession to the consortium under the Sakhalin-2 project, Mr. Barry said a proposal to this effect had been sent to the Korean side and that commercial negotiations are in progress. Shell intends to give considerably greater scope to its presence in Western Siberia and the European part of Russia, Mr. Barry said. Shell wants Russia and Central Asian countries to become part of the global portfolio of Shell projects, he stressed, pointing out the interconnection between the company's projects in the Russian Federation and those in Kazakhstan, in particular. Besides, Shell intends to operate more actively and operate on the market of liquefied natural gas. Paramount importance in this respect is assigned to the Sakhalin-2 project. Speaking about the Production Sharing Agreement (PSA) conditions, Mr. Barry underlined that Shell operates efficiently enough under the Sakhalin-2 project under the existing taxation and budget conditions. He pointed out that the PSA is not a privilege for foreigners. It is a must to stimulate the attraction of investments. Mr. Barry said his company would like to operate more actively on the retail market of petroleum products, in Moscow Region and St. Petersburg, in particular. (November 07, 2004)

*\* Shell Says Gazprom Enlargement Benefits Russia Energy (Update2) – (BY [BLOOMBERG](#))*

Dec. 6 (Bloomberg) -- Royal Dutch/Shell Group's chief executive said a planned expansion of OAO Gazprom to dominate the energy industry in Russia might benefit Western companies working in the country, the world's largest oil and gas producer. The remark is the first from a Western executive since Sergei Bogdanchikov, the head of Gazprom's oil unit, said Nov. 30 that he is seeking takeovers, including a bid for the main oil unit of OAO Yukos Oil Co., a state-run sale to collect back taxes. Government demands now totaling more than \$20 billion in taxes from Yukos in July were criticized by the Organization for Economic Cooperation and Development as an "arbitrary" use of power. "To have clarity on what Gazprom is, that helps us," Shell Chief Executive Officer Jeroen van der Veer said, in an interview today in Paris. Gazprom is "the crown jewel that's very important for the future of the country." <...> Bogdanchikov last week said Gazprom's oil business in 2010 may be the size of that of Exxon Mobil Corp. Sakhalin Project  
Gazprom may invest in the Sakhalin-2 oil and natural gas project in Russia's Far East, a plan costing some \$10 billion. Shell's expansion in Russia may include asset swaps, Van der Veer said, declining to be specific on Shell's talks with Gazprom over Sakhalin. "We think it is a logical idea for a Russian partner be involved in the project, and we are in discussions with Gazprom about that," Van der Veer said. One prospect is an asset swap. "There are all kinds of possibilities," he said. "It's too early to say what form it will take." <...> (By Mathew Carr in London at [m.carr@bloomberg.net](mailto:m.carr@bloomberg.net))

*\* Tokyo Electric Power signs a contract with SEIC.*

On November 5 Tokyo Electric Power signed a contract with SEIC for liquefied gas sales. The contract envisages purchase of LNG since the end of 2007 after the LNG plant starts production and is signed for a period of 22 years, 1.5 million metric tons annually. This fall was productive in signing LNG sales contracts – in October the deal was finalized for the sales of 1.6 million metric tons of LNG to Mexico. At this moment it can be said about the guaranteed sales of more than 5 million metric tons of LNG, out of 9.6 million totally planned for the annual production at the plant. It was also announced to the press from an official source that Tokyo Electric Power is interested in Sakhalin power system upgrade projects. According to *Sovetski Sakhalin* newspaper, Tokyo Electric Power, established in 1951 is considered to be the world's largest private power company and the leading importer of LNG in Japan. The actual volume of its consumption in 2003 exceeded 19 million metric tons, which is comparable to the annual consumption of South Korea. The company buys gas in seven countries of the world, now adding the one in Russia as well to its list. (Source – *Sovetski Sakhalin* newspaper, November 10, 2004)

*\* SEIC sells oil to Tohoku Electric.*

Sakhalin Energy Investment Company LTD shipped oil from Vityaz Complex for the Japanese energy company Tohoku Electric. All previous shipments of oil were made to the refineries, as SEIC says. All current shipment of 170 barrels of light sweet crude will be used for power generation. According to SEIC, Japanese companies are viewing Sakhalin oil as an alternative for the fuel from such countries as Indonesia. SEIC is already selling crude to the refineries of seven countries – Japan, South Korea, China, Taiwan, Philippines, Thailand and the USA. (Source – AK&M, [www.sakhipa.ru](http://www.sakhipa.ru), November 26, 2004)

*\* Sakhalin ecologists expressed their opinion about Sakhalin Energy activities.*

As the TIA Ostrova agency informed, the group of Sakhalin ecologists recently returned from a trip to Washington, D.C. The trip was organized by the U.S.-based company in order to study public opinion in Sakhalin region and to evaluate Sakhalin Energy's activities from the economic, social and environmental point of view. Visitors from the U.S. side included members of different financial institutions who provide financing for Sakhalin-2. Guests from Sakhalin also visited ExIm Bank and in the Lower Chamber of Senate. (Source- TIA Ostrova, [www.sakhipa.ru](http://www.sakhipa.ru), November 18, 2004)

*\* BP and Rosneft are working out the plan for Sakhalin-5 appraisal wells drilling.*

The partners started to develop a project to drill two exploratory wells on Kaigano-Vasjukanski license Area. The news was announced by Elvay Neftegaz, which is 51% owned by Rosneft and 49% by BP. The area of drilling is located in Okhotsk Sea, 40 kilometers (25 miles) east from the coast, about 100 meters (328 feet) deep. In October



2004 Elvary Neftegas completed drilling of the first appraisal well (the drilling started in July). As the company reported, significant hydrocarbon resources were located. The forecasted reserves of Sakhalin-5, made up as a result of the geological survey more than 2 years equal 600 million tons of oil and 500 cubic meters of gas. (*Source – AK&M, November 26, 2004*)

*\* Alfa-Eco sells its share of Petrosakh.*

Alfa-Eco last week sold its 95% share in Petrosakh to JSC Urals Energy. The news were announced by the Regional Administration and confirmed by Petrosakh. Earlier Petrosakh was negotiating with the South Korean company Korean National Railroads, but the deal never happened. Petrosakh owns a refinery in Smirnykh district and is an operator for Sakhalin-6. The remaining 5% of shares belong to Sakhalin Regional Administration, via *Sakhalinskaya Neftyanaya Kompaniya* (Municipal Sakhalin Oil Company) – (*Source – [www.sakhipa.ru](http://www.sakhipa.ru), TIA Ostrova, December 07, 2004*)

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